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SUBJECT: PM VANHANEN SURVIVES VOTE OF NO CONFIDENCE

¶1. (SBU) SUMMARY: On October 1, the Finnish Parliament voted 117 to 27 to reject a vote of no confidence against Prime Minister Vanhanen's government. Vanhanen and other Center Party members have been implicated in a campaign funding scandal in which they received large, undisclosed donations from business consultancy firm KMS and a government-sponsored housing organization Youth Foundation. Finnish law requires that politicians publically disclose campaign contributions. However, no penalties exist for non-disclosure. There is no evidence of any quid pro quo between KMS, Youth Foundation and government officials, but the government's reputation for transparency has taken a hit; recent polls show a strong drop in confidence among the Finnish public. Although Prime Minister Matti Vanhanen will remain in power, the Center Party is now weaker relative to its coalition partners. There is speculation that he will be replaced as the Center Party's Chairman during the party's Congress scheduled for summer 2010. A change to its top leadership with fresh and less tainted candidates could make the Center Party more competitive during the next general elections campaign in March ¶2011. END SUMMARY.

¶2. (U) On October 1, Prime Minister Vanhanen's government survived a vote of no confidence over a campaign funding scandal in which the Prime Minister and members of his Center party received undisclosed funds from business consultancy group KMS and a government-sponsored housing organization called Youth Foundation. Parliament voted 117 to 27 to reject the vote of no confidence, with forty parliamentarians abstaining and fifteen absent.

CENTER PARTY AND NATIONAL COALITION RECEIVE LARGEST SUMS

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¶3. (U) In May 2008 the Finnish press published stories about illicit campaign donations made to a large number of parliamentary candidates in the 2007 elections. The majority of the recipients were members of Prime Minister Vanhanen's Center Party, including the Prime Minister himself. Other recipients included members of the National Coalition Party (NCP), as well as a small number of opposition Social Democrats and one member each from the Greens and the Swedish People's Party (SPP).

¶4. (U) The largest source of donations came from KMS, a business development association founded by Finnish entrepreneurs. Nova Group, a privately owned commercial real estate development company, channeled some of the largest sums via KMS, amounting to 145,000 euros of the more than 400,000 euros which KMS distributed to government officials. Nova has since gone into bankruptcy, and a court-appointed receiver

has revealed that Nova's finances were shaky even as it made large campaign donations.

¶5. (U) KMS says it paid out some 406,000 euros to 53 candidates in the 2007 elections. Most of the money, at least 260,000 euros, went to 35 candidates from Prime Minister Matti Vanhanen's Center Party. Vanhanen himself received a contribution of 10,000 euros. KMS says that 13 candidates from the other main government party, the conservative National Coalition, received a total of 112,000 euros, including Speaker of Parliament Sauli Niinisto and Finance Minister Jyrki Katainen.

#### FOUNDATION DONATES FUNDS TO ITS FORMER CHAIRMAN VANHANEN

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¶6. (U) In addition to the KMS/Nova funding, Center Party candidates - including the Prime Minister - also received contributions from Youth Foundation, an organization which builds housing for young people and receives some of its funding from a government-controlled gaming monopoly. Before becoming Prime Minister, Vanhanen served as Youth Foundation's Chairman and Deputy Chairman. Another Center Party MP also served as Chairman until resigning recently due to the scandal.

¶7. (U) While candidates were required to disclose contributions, the law in effect at the time specified no penalties for failure to disclose. A nonpartisan working group established in May 2008 and headed by former Supreme Court Judge Lauri Tarasti will soon publish its second review of recommendations on

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reforming the campaign finance law. The report is to address the kinds of contributions to be declared, the reporting mechanism, and whether campaigns should be funded exclusively by public money distributed equally to all candidates. The first phase of Tarasti's working group reforms was approved and implemented in May 2009.

#### FINNISH PUBLIC'S CONFIDENCE IN GOVERNMENT DROPS

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¶8. (U) Currently there are no criminal investigations of politicians in connection with this scandal. There is also no evidence of any quid pro quo between KMS/Nova and government officials who received donations. Nonetheless, the Finnish public is upset that government officials have received large amounts of money with no accountability or transparency. In a recent poll, more than a quarter of those interviewed said the present campaign scandal has reduced their enthusiasm to vote. In addition, only 45 percent of those interviewed had confidence in the ability of the government to function and more than 40 percent said that it has become dysfunctional already.

#### OTHER PARTIES NOT IMMUNE FROM CRITICISM

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¶9. (U) In recent weeks, the Center Party, NCP, SDP, and individual politicians have been lining up to return campaign funds donated by KMS/Nova Group but criticism remains. The Left Party and to a lesser extent the SDP came out looking better as they already published wide-ranging reports on their election financing. However, each of them has been criticized in the recent past concerning questionable funding they received from labor unions.

¶10. (U) The Greens, while not receiving much money themselves, have been criticized by some in the media

for not speaking out strongly against their partners in the government, and the Green Justice Minister (responsible for enforcing the rules on campaign finance) has not taken an aggressive stance, arguing that the working group led by former Supreme Court judge Lauri Tarasti must be given time to finalize its report and recommendations for reform.

¶11. (SBU) COMMENT: Although Prime Minister Matti Vanhanen will remain in power, the Center Party is now weaker relative to its coalition partners. There is speculation that he will be replaced as the Center Party's Chairman during the party's Congress scheduled for summer 2010. A change to its top leadership with fresh and less tainted candidates could make the Center Party more competitive during the next general elections campaign in March 2011. END COMMENT.  
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